OPEN BANKING FUTURES:
BLUEPRINT AND TRANSITION PLAN

March 2021

In association with

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2. Foreword

The UK has a world-leading open banking infrastructure developed by industry and the Open Banking Implementation Entity (OBIE) – there is increasing customer use of open banking services, commercial development and innovation and a growing retail market interest.

PSD2 requirements continue to need to be met, along with the opportunity to use APIs to drive innovation and productivity in our economy. The CMA Order implementation requirements are now largely delivered and the implementation phase will conclude this year.

The OBIE, led by the Implementation Trustee and required by the CMA Order, has been at the centre of the development of open banking in the UK.

There is now a need to consider how the Open Banking Implementation Entity should evolve to support the service requirements of a) the CMA9 and the obligations of the CMA Order b) the needs of the PSD2 community and c) extension to future changes such as Open Finance and Smart Data d) the development of the EU SEPA API Access scheme and e) the call from HM Treasury in the Payments Landscape Review to develop the potential of open banking payments.

This Future Entity should flex to respond to these initiatives to extend customers' rights to share access to their account data and to support the development of open banking payments as an alternative to card payments.

There is a compelling logic to extend open banking into open finance. Customers do not see the relevance of the PSD2 boundary to their financial lives – if the extension is to be done without legislation or regulation then industry needs to lead the way commercially at pace.

It is fundamental that the Future Entity continues to support firms who rely on OBIE services to meet their regulatory obligations under the CMA Order and PSD2 and offer services to customers. The progress and investment to date must be secure.

In June, UK Finance published the Open Banking Future State in association with Accenture (referred to as Phase 1) setting out some important principles such as:

- OBIE should transition to an industry open banking service company
- The participants provide the funding and agree the service requirement
- The Board is a mix of independents and industry experts with end user involvement
- The monitoring of the CMA Order on the CMA9 is separate to the service company
- The service company is adaptable to future mandates subject to the clear objectives of the service company (as set out in the vision section)

The CMA asked that we build on this work via a Phase 2 to consider on behalf of and with the ecosystem:

1. A blueprint for Open Banking which embraces current and evolving service requirements, in particular setting out the industry view on some critical deep dive areas such as the entity structure (what needs must be met and how), funding, the liability model and governance
2. A transition plan that will enable the ecosystem to achieve this blueprint without disruption or risk to the Open Banking market

In developing the blueprint and transition plan, UK Finance worked in association with Baringa Partners LLP (www.Baringa.com) and we are extremely grateful for the collaboration and input from across all players in the ecosystem, in particular the Advisory Committee.

Yours sincerely,

Gerard Lemos
Chairman of UK Finance Payments Product Service Board

Jana Macintosh
Managing Director, UK Finance, Payments and Innovation

3. Executive summary

The Open Banking Futures Phase 2 report proposes a model which enhances the current provision, whilst ensuring that there is no disruption to the current services provided by Open Banking Implementation Entity (OBIE) as a result of the work, or through transition. Please note – we have referred to the new company as the 'Future Entity' in this report. This is not intended to be the company name; the company name will be agreed in the next phase.

Vision and mission

1. The Future Entity prioritises end-users' outcomes and promises to be at the heart of the Open Data and Payments market.
2. The vision states it will exist to "enable UK consumers, small businesses and corporates to benefit from a highly efficient, safe and reliable Open Data and Payments market, as well as continuing to provide a platform for UK financial institutions to meet their regulatory requirements".

Entity structure

3. A set of around 30 service capabilities will be provided by the Future Entity in order to meet the requirements of the Open Banking ecosystem and help ensure its stability and resilience.
4. A single entity model is proposed for the ongoing delivery of the standards and service capabilities. (To note, this presumes that the monitoring of the CMA9 in relation to the CMA order will be separate and the CMA will consult on the proposal for this element).
5. The service capabilities (in particular the Directory and DMS) need to be reviewed as a part of the transition to confirm whether they are fit for purpose, are compliant with competition law and who should provide them, consulting stakeholders, including regulators.
6. The proposed model allows for specific service capabilities to be provided by the entity or market participants subject to regulatory and competition law compliance, and is justified either on a cost or quality of service basis.

Corporate governance

7. The Future Entity is a not for profit private company limited by guarantee, with "members" comprised of various ecosystem regulated participants.
8. The Future Entity will have a board of directors and an executive team – the board of directors will be comprised of an independent chair, two independent non-executive directors, one consumer organisation representative and four industry representatives.
9. An Advisory Committee including member representatives, the board of directors and stakeholders (end-user representatives, industry bodies and regulators) will be responsible for advising the board.
10. Governance should be built out as the entity moves towards a 'steady state'. There should be a strong industry presence through the transition phase to ensure the industry is able to have an ongoing influence on the formation of the Future Entity.
11. The Future Entity will deliver change by evolving Open Banking standards and the services it provides.
12. Change requirements will come from participant groups, HM Treasury and regulators, and will go through a rigorous prioritisation and refinement process including to ensure compliance with competition law before being delivered by the Future Entity and adopted by market participants.

Commercial and liability model

13. Annual funding requirements should be covered proportionally by member Account Servicing Payment Service Providers (ASPSPs).

14. Future Entity financials should be transparent and upfront, with a business plan and annual budget communicated to members in advance of each financial year.

15. A charge may be paid by Third Party Providers (TPPs) reflecting the additional services they receive from the Future Entity (i.e. services which are over above what they are entitled to by law) – this would be subject to prior competition law review (for example, to ensure that any such charge is fair, reasonable and non-discriminatory) and should not serve as an obstacle to TPP participation in the ecosystem, and instead reflects a value for money, voluntary exchange between TPPs and the Future Entity.

16. The Future Entity will take measures to increase fee income and reduce operational costs to minimise any funding gap in subsequent years. The Board of the Future Entity will need to satisfy larger ASPSPs that the operational costs are consistent with their legal obligations and ongoing service requirements. Consideration will be needed as to whether larger ASPSPs require step-in rights to ensure they can meet their obligations under the CMA Order.

Transition plan

17. The approach recommended is to maintain the service capabilities of OBIE in Open Banking Limited (OBL) subject to due diligence.

18. The key elements of transition are to complete the governance (appoint board, revise the membership structure and the company's constitution), review whether the service capabilities are fit for purpose, introduce a new funding structure and carve out the monitoring elements. We estimate this process will run until Q1 2022 under the governance of the independent chair.

Other considerations

19. There are potential day2 evolutions including the merits of a commercial subsidiary, the development of an Open Futures Board and the transition of Open Banking Payments to a payment arrangement framework.

20. All recommendations, principles and suggestions are subject to formal due diligence.

4. Requirements of the ecosystem

The UK is at the forefront of delivering innovation and change through Open Banking APIs; leading many of the discussions across Europe and worldwide. The UK has an advanced set of Application Programme Interfaces (APIs) with consistency across standards, enabling API usage to double every five months.[1]

This progress is in part due to the regulatory foresight from the CMA Order, the effectiveness of the Open Banking Implementation Entity (OBIE) and investment from market participants. There is a desire for this work to continue with an active and passionate industry of more than 700 market participants. These include:

- end users (both consumer and business) who continue to need the free flow of data and payment enablement in an open, transparent environment to help them better manage their finances;
- third-party providers (TPPs) such as Payment Initiation Service Providers (PISPs), Account Information Service Providers and Card Based Payment Instrument Issuers (CBPIIs) as well as Aggregators and Technical Service Providers (TSPs) who have businesses centred around secure and efficient access to customer data;
- industry service providers who supply to the Open Banking ecosystem (for example, the multiple identity organisations) who wish to ensure the market is competitive and their provision is seen on an equal footing;
- account providers who need to meet their regulatory requirements and wish to support their customers
- regulators and other industries are now looking at the significant infrastructure built by the OBIE and how this might be used to support other initiatives.

Each party has different requirements from the Future Entity and work has been completed through bilateral discussions, workshops and document reviews to consider both the regulated/mandated requirements and those of the industry. The focus of the work is to build a view of the day 1 model, however where future requirements were provided these have also been captured. Figure 1 outlines the hierarchy of requirements for the Future Entity.

Figure 1. Hierarchy of requirements for the Future Entity

1 Ongoing Maintenance

Stability and resilience of Open Banking infrastructure for end-users to ensure integrity of the solution

2 CMA Order – Residual Requirements

Ongoing compliance with the CMA Order including the maintenance of a Directory, Dispute Management etc.

3 PSD2

Broader PSD2 / PSR requirements outsourced by the wider industry to the future entity

4 Market Led

Business Case driven enhancements to Open Banking infrastructure beyond CMA or PSD2 requirements

1. OBIE figures

1. CMA Order requirements

Since the set-up of the OBIE this fast-moving industry has undergone a series of critical changes – in 2021 the specifications for the final CMA roadmap (CMA Order Roadmap May 2020) will be delivered. The completion of this roadmap would bring to a close the requirement for:

- an Implementation Trustee
- funding beyond monitoring (provided residual requirements are achieved)
- an implementation entity
- a roadmap of items for development and implementation

However, upon completion of the CMA roadmap there would remain, in our view and to be confirmed by the CMA' a series of residual requirements including:

- Articles 10.1 and 10.2 provision of widely available standards, data format, governance arrangements and customer redress mechanisms (10.2.5) and whitelisting (10.2.3c). In our view this would include maintenance of the standards e.g. to take account of revisions to FAPI (Financial-grade API)
- Article 12.1 provision of read only data and product information
- N.B. it is assumed that the areas outlined in articles such as 12.3 (accuracy of information), 12.4 (product to include – PCA, BCA, SME lending), 13 (release of Service Quality Indicators) and 14 (release of PCA and BCA transaction data sets) would still stand.

2. PSD2 requirements

On a similar basis PSD2 (as transposed into UK legislation in the Payment Services Regulations 2017 ('PSRs 2017') and the UK Technical standards on strong customer authentication and common and secure methods of communication ('UK RTS') has a series of requirements that services provided by the Future Entity will need to be compliant with. Detailed traceability has been completed against PSD2 to identify the key requirements that are relevant to the services to be provided by the Future Entity. For example, the requirement on TPPs to identify themselves to ASPSPs under the UK RTS.

The entity will also need to comply with other legal requirements, e.g. relating to data privacy, anti-money laundering and GDPR. In addition, moving forward, if the Future Entity is providing a directory service at a commercial level and if ASPSPs are relying on the Future Entity to perform checks on NCA registers, this may potentially be outsourcing from the ASPSP community and therefore subject to EBA guidelines on outsourcing.

3. Industry requirements

Since inception, OBIE has been asked to support a wider range of needs than those required in the original CMA order. Participants in the ecosystem have a series of well-defined additional 'Industry' requirements:

The entity will look to accommodate where feasible a reasonable set of future requirements from the ecosystem:

Figure 2. High level requirements of the ecosystem by participant group

End Users – AIS and PIS	TPPs	ASPSPs	Open Banking Service Providers	Industry Bodies & Regulators	Broader Stakeholders
Consumers, Businesses & Representative Groups	PISPs, AISPs and non-UK TPPs	CMA9 and non-CMA9	Directory, Onboarding, DMS, Cert. Management providers	CMA, FCA, PSR, UK Finance,	Pay.uk (CoP), international organisations, BEIS, Ofgem
Secure operation of Open Banking that **allows me to give TPPs access to my data** so I can better manage my finances	A point of escalation and resolution should I have an issue with another participant	Meet future open API regulatory mandates through the same entity	Complement and **compete with the services provided by the Future Entity**	**Create a competitive, efficient and innovative market** in the UK	Alignment and usage of cross sector functionality where it is possible through existing functionality
Open Banking functionality that enables innovative user led payments and data propositions	For all registered TPPs the ability to integrate with UK ASPSPs to provide value-add services to UK end-users	Ability to create customer propositions and **drive increased competition and innovation by** supporting market driven enhancements		**Wide spread adoption** of Open Banking and future initiatives	Ensure alignment on an end to end basis e.g. • policy inputs with Pay.uk or • ensuring changes to payment initiation fit with downstream payment rails, CoP and NPA
Ensure the **voice of the customer** is heard so that they receive maximum value from the open banking infrastructure	Open banking functionality that enables competitive payments and data propositions	**Ability to not support a future discretionary enhancement** should the value not outweigh the cost			
Ensure a **secure and reliable Open Banking service** that allows me to service my customers needs					
Prioritise the **free flow of data** so that the market is open and transparent		Create an entity that is financially self sustaining through Service Revenues		Create a voice for the UK in Europe and worldwide	Alignment and usage of **cross sector functionality** that may require set up of separate cross sector arrangements
Ensure the **Open Banking service continues to evolve** and provide functionality					

Requirements on day 1   Requirements beyond day 1

5. Vision and mission

The intention of the vision is to articulate the purpose of this entity, or in other words, why it needs to exist in the market. We have also defined a set of outcomes that illustrate what this organisation should be aiming to achieve and how it can measure its success, and a mission, which describes what this company needs to do to enable it to achieve its vision.

To define this we have run a series of workshops with a wide variety of participants and stakeholders, and received feedback through the UK Finance Open Banking Futures Advisory Committee. Alongside this we carried out a market review to appreciate the Future Entity's position in the ecosystem and learn from the stated purpose of similar organisations.

The agreed vision for the entity for 'day 1' is to...

> *'Enable UK consumers, small businesses and corporates to benefit from a highly efficient, safe and reliable Open Data and Payments market, as well as continuing to provide a platform for UK financial institutions to meet their regulatory requirements'*

The OBIE was set up to provide the infrastructure to enable regulated institutions in the UK to meet their regulatory requirements stemming from the CMA Order 2017, and this vision highlights that the Future Entity must continue to provide this platform. The vision also doesn't confine the Future Entity and anticipates the broadening of propositions and innovation outside of Open Banking into other parts of finance and other industries. Lastly, end users are at heart of the vision of this company and measures will be taken through the design of the Future Entity to ensure their needs are understood and delivered effectively.

With the vision defined the Future Entity must be clear on the role it plays as an organisation to enable the outcomes, i.e. what it must do. This has been defined as...

- Hold and maintain the technical standards[2] - The standards are central to the provision of Open Banking and the entity must continue to hold and maintain them going forward.
- Provide the core services required - Certain services are central to the operation of Open Banking and should be provided by the entity. These include the help desk and the directory. The provision of Open Banking services will be competitive in the market allowing other service providers to offer alternative solutions.
- Enable regulatory compliance for the industry - The entity must continue to enable the compliance to existing regulations (e.g. CMA Order, PSD2 and GDPR) and enable the compliance to relevant future mandates that are placed on the industry.
- Be an effective point of escalation and resolution - The ability to get representatives from across the industry together is a valuable asset and should be maintained moving forward.
- Be an advocate for Open Data and Payments propositions in the UK and internationally - Being an advocate involves being the visible leader on behalf of the industry, driving the adoption of Open Banking and other Open Data and Payments propositions in the market, and supporting strategic discussions at the international level and advocating the use of UK infrastructure to support international use.
- Enable ongoing enhancements and improvements - There are well documented areas of improvement for the Open Banking solution. Non-regulatory enhancements should be analysed and discussed within the community to gain support for the value of delivery. This entity will facilitate the discussion and manage the subsequent delivery.

2. The technical standards include the API specifications, conformance tools, operating guidelines and other artefacts associated with the standards.

This mission underpins the service capabilities of the Future Entity and provides a foundation for the rest of the report.

To allow the vision to be measured a series of outcomes have also been defined. These outcomes in turn require a set of Key Performance Indicators (KPIs) which will allow them to be measured by the board. We would expect to see ongoing transparency from the company on its success against each of these outcomes.

1. Widespread adoption of Open Data and Payments propositions
2. The services provided will be highly secure and reliable
3. The UK remains at the forefront of innovation in Open API propositions
4. Those in vulnerable situations are able to experience equal benefits of Open Data and Payments propositions
5. Poor customer outcomes are prevented

The outcomes continue to place a positive customer experience at the centre, and ensure the board measures its success in delivering against its purpose. They also bring forward the need for widespread adoption, especially within payments, while continuing to ensure a highly secure and reliable service. Lastly the Future Entity should have a its strong international standing through supporting other nations with their adoption.

6. Service capabilities & entity structure

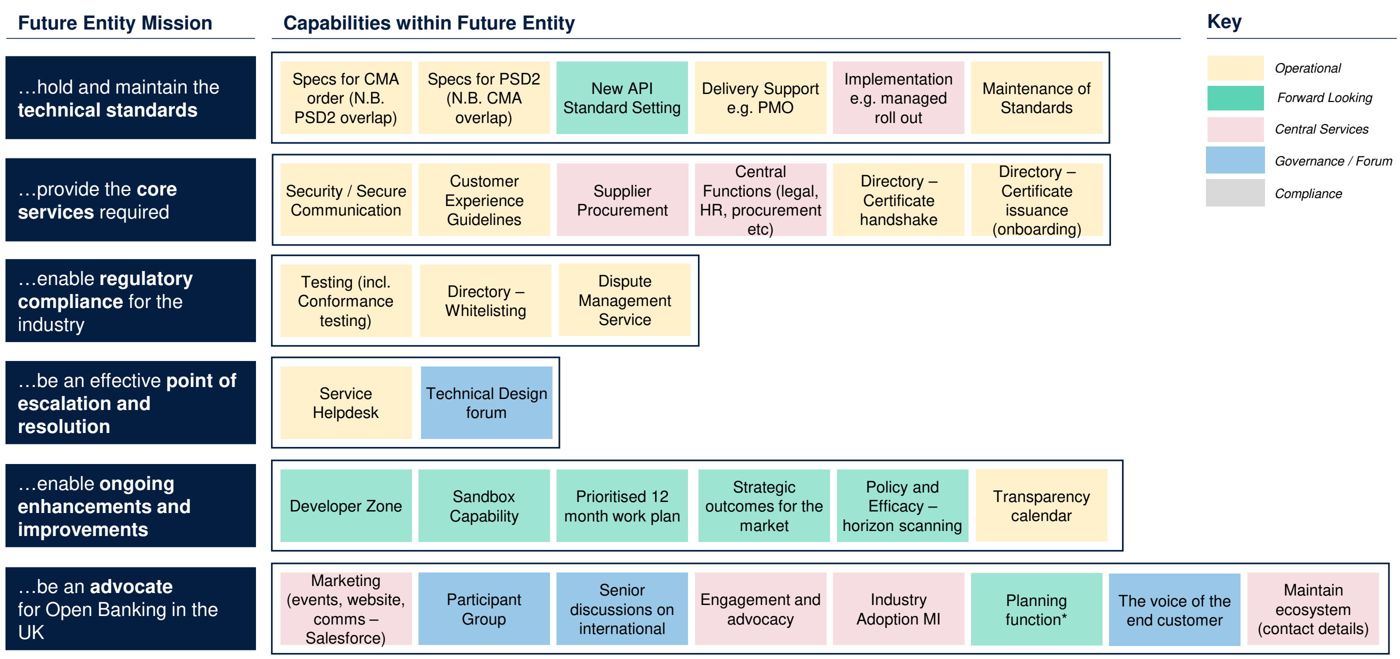
6.1 Service capabilities

To meet the requirements of the industry, the Future Entity (or entities) will need to provide a series of services, or 'service capabilities'. These were identified by reviewing the requirements of the Future Entity against the current OBIE service capabilities, removing, adding or adapting as necessary to align to the requirements.
The resultant catalogue of service capabilities include:

- Services: such as the Directory Whitelisting whereby the entity checks the participant is authorised by their appropriate National Competent Authority (NCA) and certificates are in place to ensure a swift way of approving TPPs and to support communication around user disputes
- Standards: including the specifications for PSD2 with free provision and publication of Read/Write data standards that enable unhindered access to account information and payment initiation and the maintenance of the standards to ensuring ongoing updates to specific versions
- Central functions: for example, procurement who act on behalf of the ecosystem to determine the best provision of the entity's service capabilities. Including build of a framework to determine the procurement approach to different strategies (build in house or procure) buying needs, buying controls, sourcing, negotiation, legal set up, supplier onboarding, functional enablement including set up of KPIs, processing and behavioral characteristics including stakeholder engagement, supplier development and internal co-ordination. Other specific central functions for the entity include the capability to maintain an ecosystem, the contact points for the industry and supporting industry level discussion
- Forward looking capabilities: including policy and efficacy support to identify forthcoming regulatory requirements and the impact on the ecosystem

The services and how these relate to the mission for the Future Entity are shown below.

Figure 3. Future Entity Service Capabilities



*Considers wider and longer term policy considerations and activity across the industry e.g. if Smart data were consdiered

Through the course of industry discussions, it has been raised that while the industry is happy for the entity to both procure services on behalf of the industry and build and provide services to the industry, the approach must ensure that the best model (be this one of central provision or provision via multiple competitive offerings) is achieved. Considerations in relation to this that have been raised include:

- The market has moved substantially since the inception of OBIE in 2016 and there are now multiple providers of some of the services, for example checks of the NCA registers and as such there are more provision options for the ecosystem to consider.
- There are requirements in PSD2 or the CMA Order (for example whitelisting) that state the provision is required, however does not require that the provision is by a single central entity.
- OBIE services have responded well to market demand and there are services that have opened up that go beyond the original regulatory requirement to support the industry such as support or confirmation of payee.
- A reminder that the set-up of OBIE is unique and anti-competition law should be considered in all elements in relation to it.

We believe the changes in the market and the new funding model for the Future Entity require a review of the as-is service capabilities and recommend this is done as a part of the transition process, consulting stakeholders including regulators.

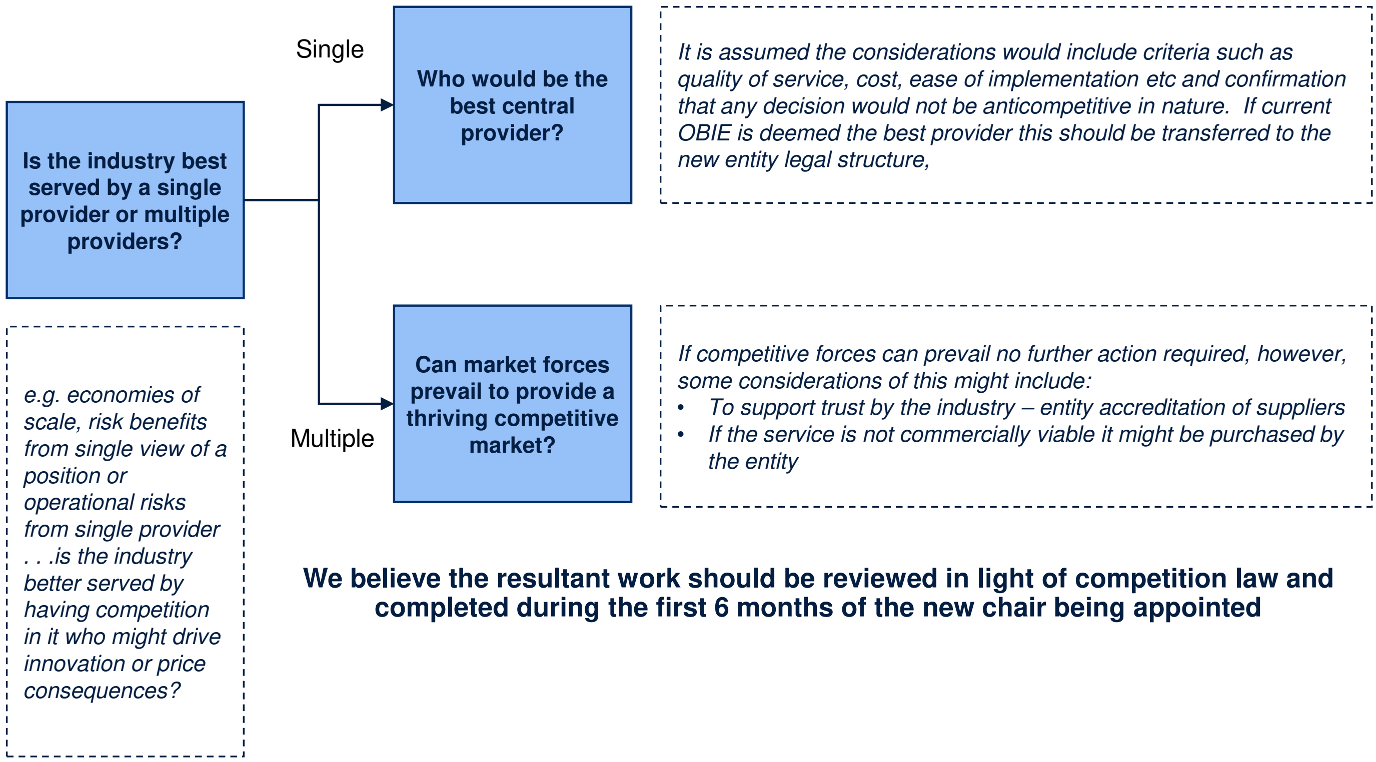
The board of the Future Entity should consider whether the service capabilities are required on an as-is basis noting industry feedback that the following capabilities may need a revised approach:

1. The Directory. The UK RTS provide that, for the purposes of identification, either e-IDAS certificates or another form of identification issued by an independent third party can be relied upon. However, as a result of the UK's withdrawal from the European Union, the European Banking Authority (EBA) announced the revocation of eIDAS certificates issued by EU Qualified Trust Service Providers (QTSPs) to UK-based TPPs. This left the OBIE as the sole provider of certificates in the UK.
2. DMS (the Dispute Management Service) and the cost of provision given the low level of customer concerns raised and the fact that the DMS is not needed to ensure regulatory compliance for the whole industry
3. The test facility including the Sandbox
4. Payments initiation capability in the UK – this is touched on in the future evolution section of this report
5. Areas that may be anti-competitive in nature

The board should consider who provides each service capability. For example:

- Is the industry best served by a single central provider or are there merits to competition? This should include considerations around whether there are services 'in the public interest' that need to be protected, the risk position (including the level of responsibility the entity might hold on ensuring the provision of critical PSD2 required services),the cost of provision and long term merits to the market such as impacts on trust and adoption and whether there are any risks associated with having a single central supplier.
- How is the service best provided: for example built by the entity, provided to the entity (under the entity's name) by athird-party contract, provided by a third party with a contract to the entity but under the brand name of the third party, provided by the third party with a trust mark by the entity or provided under competitive forces in the market. To note, irrespective of the model, the entity must not prohibit participants entering into direct or private contracts with other suppliers in the market nor be anti-competitive in nature.

Figure 4. Considerations for the service capability review



When the review of service capabilities provision should be undertaken has received varying responses from industry. These range from; 'complete as a part of the design work to ensure there are no regret moves, for example if the funding model were predicated on fees from the directory but provision of the directory changed this might impact the funding model', to views that these should be reviewed 'in the fullness of time'.

Our recommendation is that this should be completed within six months of a new Chair being appointed, since the appointment of the Chair provides appropriate governance for these decisions and would sit in the 'Day 0 transition period' as outlined in the transition plan section of this report. We would also recommend that a review of the directory is prioritised given the substantial cost of this service, the tie in to the commercial model and the complexity this presents with the unique position in the UK given the EU use of eIDAS certificates and the number of competitive suppliers for elements of the directory in the UK.

Given the sensitivity and importance of the service reviews, the board will need to consult widely with members, stakeholders (including regulators) and the Advisory Committee to ensure its decisions command support.

6.2 Entity structure

Through industry discussions three broad models for the overall structure of the entity were proposed:

Model 1: A core entity with separate monitoring – this entity would both provide and procure services on behalf of the ecosystem.

Model 2: A three entity model – a core operational entity, separate monitoring and a separate OB Futures Board bringing independence to the thinking around longer term priorities for the ecosystem. The core entity would both provide and procure services on behalf of the ecosystem.

Model 3: A market led model – whereby the role of the entity is to bring about market forces both through outsourcing the majority of market functions and by leaving the strategic capabilities such as policy reviews and the strategic outcomes for the market to wider associations.

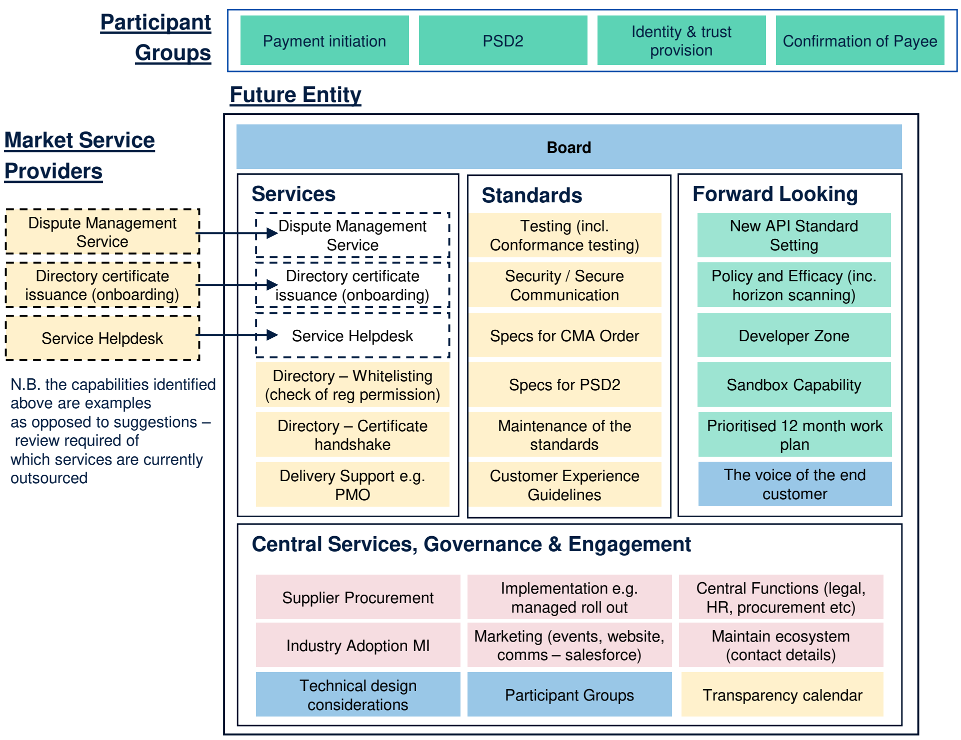
Irrespective of model, it is believed that a not for profit construct is the right one to maintain a focus on the end user and a reflection that the public nature of the standards is for the public interest as compared to a commercial construct.

We believe there is industry consensus on a day 1 position – model 1 above, this brings:

- Ease of transition from the current OBIE
- Simplicity of governance - a single board and single set of central services
- The control and communication the board will require, with oversight of both what needs to be delivered and the operational delivery
- The combined provision of services and the ability to procure services in the market which provides a low risk operational model for the ecosystem

Figure 5. Day 1 proposed structure for the Future Entity based on industry feedback

Under this model the Future Entity would provide some services in house, others via a contract to the entity and others via market service provider fulfilment. Please note the boxes showing 'market service providers' are illustrative, there is no suggestion these particular services should be provided externally; a service review needs completing to determine this.



N.B. Further service capabilities including a longer term planning function, capabilities to review the strategic outcomes for the industry, wide engagement and advocacy and International have been raised as potential capabilities that support the market. However, all capabilities should be reviewed subject to budget availability

Features

All capabilities are housed within a single entity (apart from monitoring). The board will provide the strategic direction for the organisation, advised by the Advisory Committee (to ensure representation from across the industry) and will govern all internal activities, including the future development of standards.

Rationale for model

This makes for an easy transition from the current OBIE. Anticipated lowest-cost model as a single board and central services are maintained. The model Includes a forward-looking element that can help ensure the voice of the end consumer is considered. It provides the board with control over both what needs to be delivered and the operational delivery. The board therefore has sufficient authority and should communicate effectively between the elements.

7. Governance

The current OBIE governance model, and the role of the Implementation Trustee, has enabled Open Banking to be successfully delivered in the UK market. There are many components of the current model that should continue into the future, for example the inclusivity of delivery working groups has created a forum for the industry to come together and solve problems as a collective.

Core components of the current model include (as articulated in the phase 1 report):

- Open Banking Limited is the company set up in 2016 to deliver Open Banking, through the special purpose delivery vehicle – the Open Banking Implementation Entity.
- Open Banking Limited is registered at Companies House. It is listed as a private company, limited by guarantee without share capital. The Implementation Trustee is a director and the Chairman and the sole member of Open Banking Limited.
- The Implementation Entity Steering Group (IESG) which includes the Trustee, end users representatives and the CMA9 amongst others.
- The Trustee has decision-making powers as outlined within the CMA Order (and, where applicable, subject to agreement with the CMA).
- The Programme Management Group (PMG), involving open banking programme directors.

The governance model of the Future Entity needs to reflect the transition away from the implementation phase to one where the service capabilities are maintained and available for re-use as Open Banking extends to Open Finance and Open Data, and Open Banking payments develops. Within the new model there is a set of key principles that need to be achieved. The Future Entity's governance needs to:

- ensure appropriate industry influence
- encourage and enable innovation
- achieve effective decision making
- support the end user vision; and
- ensure transparency to the industry on matters of interest.

The model proposed for the Future Entity includes a variety of components that aim to deliver on these principles, while minimising complexity wherever possible.

7.1 Summary

The structure of the Future Entity

The Future Entity is a not-for-profit private company limited by guarantee. This means the company will have a group of members (rather than shareholders). The members will be made up of regulated ecosystem participants. No income, profits or capital value will be distributed to the members as profits generated will instead be re-invested to promote the objectives of the company. Should the company become insolvent members are protected by limited liability up to the amount of their guarantees (£1). The Future Entity will not be a regulated entity since it is not discharging regulated activities. However, members will themselves be regulated companies (although the Future Entity will want to consider whether TSPs can become members). This also aligns to the company's vision and mission to provide end-user benefit through data sharing and payments propositions.

The transition from participants to 'members'

In the new model all participants are likely to become members of the new entity. The membership model is intended to enable a series of benefits to members.

The benefits of becoming a member include:

- Gaining access to service capabilities
- Members will be eligible to join the Advisory Committee to provide guidance to the board
- Members will be able to bring forward requirements to enhance and evolve the standards and services

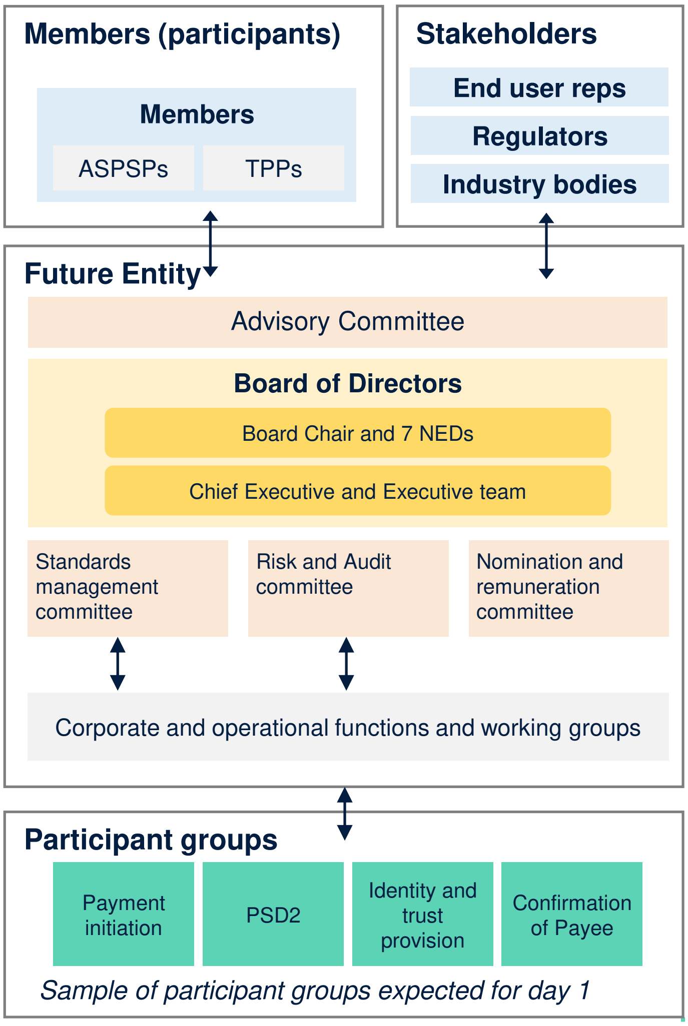
- Members will hold weighted voting rights and a role in the nomination and appointment of members of the board

The Board, Committees & Participant Groups

Careful consideration has been given to the board structure, to strike the right balance between inclusion with representation as well as the need for the board to be limited to a size that enables effective decision making. The new model will have a board of directors, headed by an independent chairperson. In addition to the chair and CEO, the board should include a number of non-executive directors bringing industry and membership representation, end consumer and business representation, and independence.

There is recognition that a broader set of members and stakeholders need an appropriate forum to support and advise the board. To achieve this an Advisory Committee will be established. The board will control the ultimate approval of decisions taken by the company but will discuss matters of interest (e.g. strategy plans and financial forecasts) with the Advisory Committee. Existing internal delivery governance will be mirrored for day 1 to ensure continuity and reviewed after the migration. Participant groups will be formed to bring new requirements to the Future Entity for assessment (see the change model section for more information).

Figure 6. Summary governance of Future Entity



7.2 Membership & board make-up

The membership model gives participants influence over the Future Entity at both the board level and working group level.

The core features of membership include:

- All regulated participants are likely to become members of the new entity to gain access to service capabilities
- As a member of the company, each participant will guarantee that in the event of the liquidation or winding up of the company it will guarantee to contribute to the company the maximum sum of £1, with no further liability
- Members will be required to agree to the funding requirements (which will be set in compliance with competition law) – see commercial model for more information
- ASPSP members will be required to annually fund the company
- TPP members will not be required to pay annual funding
- Terms and conditions will be stated in a membership agreement

In order to enable security of funding for the Future Entity, ASPSP membership will last a minimum of two years after which it can be withdrawn by the participant with six months' prior notice. This will allow the Future Entity to have stability of its funding and revenue to meet its cost commitments. As part of the transition the current CMA9 ASPSPs will be requested to commit to an initial three years of membership and corresponding funding commitments to ensure continuity and give the Future Entity time to form and stabilise in the industry. After this point any of them may withdraw from membership with six months' prior notice. The inclusion of the Northern Ireland CMA9 banks within the initial three-year commitment should be confirmed within the next phase due to their relative market share across the UK.

Benefits and rights of membership

In order to provide direct representation on the board four non-executive positions will be provided to representatives of the membership's choice – two TPP representatives (with at least once being a PISP), two ASPSP representatives.

- The initial tranche of members will be asked to inform the chairperson of their interest in nominating an individual for appointment as a non-executive director.
- Subsequently members within each participant group (ASPSP/ TPP will be asked to vote on the appointment of a non-executive director from a list of individuals nominated to be a representative of that group).

Individuals nominated by a variety of members will be asked to join the Advisory Committee established by the chair and chief executive. These nominees will be requested to attend Advisory Committee sessions with questions and guidance based on the material submitted for the session.

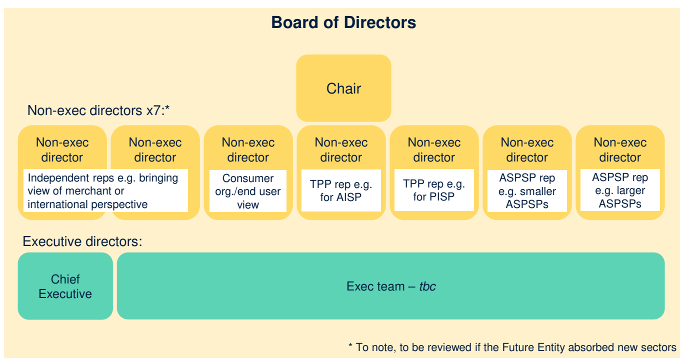
Members will be able to bring new requirements and funding to the Future Entity through Participant Groups (more information available within the change model section), and will also be asked to join delivery working groups to inform the standards/ services being developed.

Members will hold voting rights (weighted per participant type) on certain matters, specifically:

- The appointment of the chair. The initial chair will have a three-year term after which members will be asked to vote on their continuation as chair. After the initial phase the term should be extended to fiveyears] to reflect standard governance practices
- Existential matters that impact the company – for example, a merger with another organization

The board must have the appropriate makeup to bring industry representation alongside the skills and experience needed to guide and govern the Future Entity.

Figure 7. Make up of the Board of the Future Entity.
N.B. This should be reviewed if the entity extends to new sectors



The board should have an independent chair. This chair is responsible for:

- Leadership – the chair should provide vision and direction, as a trusted partner and collaborator for industry and regulators alike. They will have a key role to play in encouraging and challenging industry to collaborate and provide world class open banking / finance products and services.
- Ensure the Management Committee functions properly – this includes the effective running of board meetings, and reviewing the performance of these committees against their stated aims.
- Supervise and support the executive team – directly manage the chief executive officer and provide ongoing support to the broader executive team where required.

The chair should have a three-year initial term, after which re-appointment will be required by the membership. This will give the chair sufficient time to standup and take forward the new entity whilst also empowering the membership to influence the management of the Future Entity. After the initial phase the term should be extended to five years to reflect standard governance practices. Constitutional documents will cover the next level of detail in relation to corporate governance.

The chief executive will be a member of the board and will in turn appoint the executive team. It is not expected that any further voting positions will be given to the executive team beyond the chief executive.

The board should include both independent and industry representatives from ASPSPs and TPPs. We propose having a total of seven non-executive directors, made up of two independent directors, four directors nominated for appointment by members (industry) and one director nominated for appointment as a consumer organisation representative. Non-executive directors representing the industry should be voted in by the members.
Once appointed the chair will reach out to the current participants to identify those with interest of becoming a non-executive director representing the industry and will define and conduct the voting process. The chair should also own the process to appoint the independent non-executives. These non-executives should bring expertise from areas of finance outside of banking, and even beyond finance. They may well also bring an international perspective to the board, to help achieve its objective of having international influence. The board must collectively have skills and experience across 1. Financial services and FinTech industry knowledge and experience, 2. Experience running operations and technology provision, 3. Technical knowledge of APIs and associated technologies, and 4. Customer experience and consumer policy.

7.3 Decision making and committees

Effective decision making will be critical to enabling the company's outcomes to be achieved. This model gives the board control with clear guidance from the industry and stakeholders on significant matters.

Board meetings – to be written into the Board Terms of Reference

The board will control all motions for action but will discuss matters of interest with the Advisory Committee (see matrix below for information). Within board meetings all members will have an equal vote on any decision or resolution put to the board for approval. A number of matters will be reserved for board meetings including strategic planning and oversight, assessment of the company's success against its intended outcomes, funding expectations from members, and financial reporting. The board should be expected to provide regular reporting on the company's progress against its stated objectives. The Advisory Committee will support with its creation.

Advisory Committee

The purpose of the Advisory Committee is to bring industry and end user representation and guidance to the board. To ensure guidance is given the board will be obligated to bring matters of interest to the Advisory Committee. The Advisory Committee will be made up of the Future Entity board of directors, members, end user representatives, regulators and industry body representatives. The chair and chief executive will invite an initial set of representatives to join the advisory committee through the transition phase. The chair and chief executive should review the Advisory Committee representatives every year. It is expected the Advisory Committee will meet at least quarterly. The committee will discuss a variety of matters including commercials and funding expectations, progress against company objectives and outcomes, and any proposed strategy or operational alterations.

Other committees

It is expected the chair and board will define and create the committee structure on the basis of advice from the executive team and Advisory Committee. This should include:

- Standards management committee: Oversees and governs the evolution of the standards. Given the importance the standards play in enabling Open Banking it is essential the management is overseen by company directors. The governance should follow best practice from similar organisations. For example, the Open ID foundation prioritises transparency of its activities to the market to encourage widespread adoption and harmonisation. Also, to ensure the evolution of the standards is inclusive to all interested parties, all members (paying or non-paying) have the ability to influence the standards.
- Risk and audit committee: Oversees and ensures an appropriate risk management framework and policies are in place, and monitors/identifies company risks. It should also oversee internal and external audits of the company. It is expected an annual audit will be conducted to assess the company's controls and finances.
- Nomination & remuneration committee: Evaluates the composition and remuneration of the board to ensure it has the right skills and characteristics.

Figure 8. Consultation requirements for 'matters of interest'

Example of approach by scenario	Board	Advisory committee	Membership
Financial forecast for the upcoming year	Approve by vote	Consulted	Informed
Strategy proposed by the chief executive	Approve by vote	Consulted	Informed
Re-appointment of the chairperson	Propose		Approve by vote
Company merger	Propose	Consulted	Approve by vote

7.4 Change model

The Future Entity will play a pivotal role in enabling collaboration and innovation to drive ongoing enhancements, within the confines of competition law.

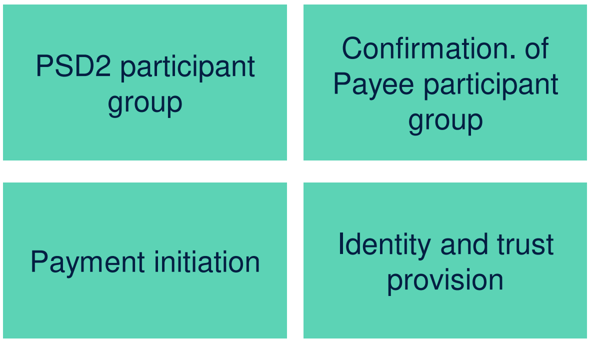
Participant groups

Participant groups bring together TPPs, ASPSPs, end user reps and industry bodies around a common interest to create proposals and funding for further enhancement. They are self-governed and therefore sit outside of the Future Entity governance model but play a key role driving change in the market. For example, payment initiation an area of great activity and innovation at present (more information available within the day 2 section of the report). We therefore anticipate a participant group forming to discuss the requirements of Open Banking and to progress payment initiation within the UK

Analysing and delivering requirements – 'Discovery Working Group'

Sufficient analysis is required to identify the benefits and costs of delivering new requirements. To support this the Future Entity should create a 'discovery working group' to bring together participants and stakeholders to evaluate the cost, benefits, alignment to objectives and likelihood of adoption. The discovery working group should also support the presentation of new requirements to the internal committees for approval for delivery. The Future Entity should initially mirror the existing OBIE delivery working group structure to ensure continuity from the current model. Over time this should be refined to react to the type and amount of change being delivered and achieve greater efficiencies.

Figure 9. Sample of participant groups expected for day 1



7.5 Assessing the governance model

This model aims to achieve appropriate control whilst enabling innovation and end-user outcomes.

Question	Answer
How does this governance provide appropriate **industry influence?**	• Regulated ecosystem participants are likely to become members of the Future Entity • Members will be eligible to join the Advisory Committee to guide and influence the board of directors • Four non-exec positions will be filled with industry reps – two for ASPSP members, and two for TPP members – who will be expected to vote on all motions raised to the board • The membership collectively holds the right to appoint the chairperson – who will have an initial three-year term, after which reappointments will be required
How does the governance **encourage innovation** in the market?	The governance model encourages innovation by: • The breadth and diversity of each element of the governance from the mix of the board to the ability to be a part of the Advisory Committee to the concept of the participant groups which are ungoverned and unconstrained in nature allowing market participants to step forward • Bilateral commercial agreements will be developed by the Future Entity to remove a key barrier to wide adoption in the industry
How does this model achieve effective **decision making?**	• The board will be made up of a combination of independent and industry representation, with the appropriate skills to govern the technical subject matter of the company • The board will be supported by an Advisory Committee to bring further industry guidance, and a series of committees to bring focus to priority matters • An annual audit will be conducted to assess the success of the governance and finances of the Future Entity • The board will be obligated to report on its success in delivering against its stated objectives
How does the governance **support the end-user centric vision** of the new company?	• At least one non-executive director will have clear representation of end users and hold a position with a customer organisation. Furthermore, both customer experience and consumer policy expertise should be present on the board • End user reps will be invited to join the Advisory Committee to guide and influence the board of directors • End user reps will be able to join participant groups (although control of the governance for participant groups falls outside of the remit of the Future Entity) • End user reps will be invited to join the Discovery working group and existing delivery working groups to triage and deliver new requirements • We have also highlighted that the change model must be able to identify and deliver requirements with end user benefits but no commercial potential, which may need funding from the Future Entity itself
How will the operations of the Future Entity be **transparent to the industry**?	• The board should be expected to provide regular reporting on the company's progress against its stated objectives • The board must provide detailed financial reports to members and provide generous notice to ASPSPs prior to annual contribution requests • The board will be required to take all matters of interest to the Advisory Committee for guidance prior to voting

7.6 Transition governance model

The governance model described will be sufficient for the 'steady state' of the Future Entity. We have outlined below how we see the governance evolving over time.

Transition phase

Initially a transition group should be established. Led by a senior individual, these resources will be highly productive and dedicated to driving forward the formation of the Future Entity. The chair should be hired early within the transition to take decisions and begin the formation of governance. Once onboard the chair will be able to support with the hiring of the chief executive. The Advisory Committee should be established ASAP to support all transition steps and de-risk the process. It is important the experience and knowledge of the OBIE is not lost, and this should play a key role in the transition and beyond.

Day 1

For day 1 it is important the governance is extended to support the running of the Future Entity. This should include:

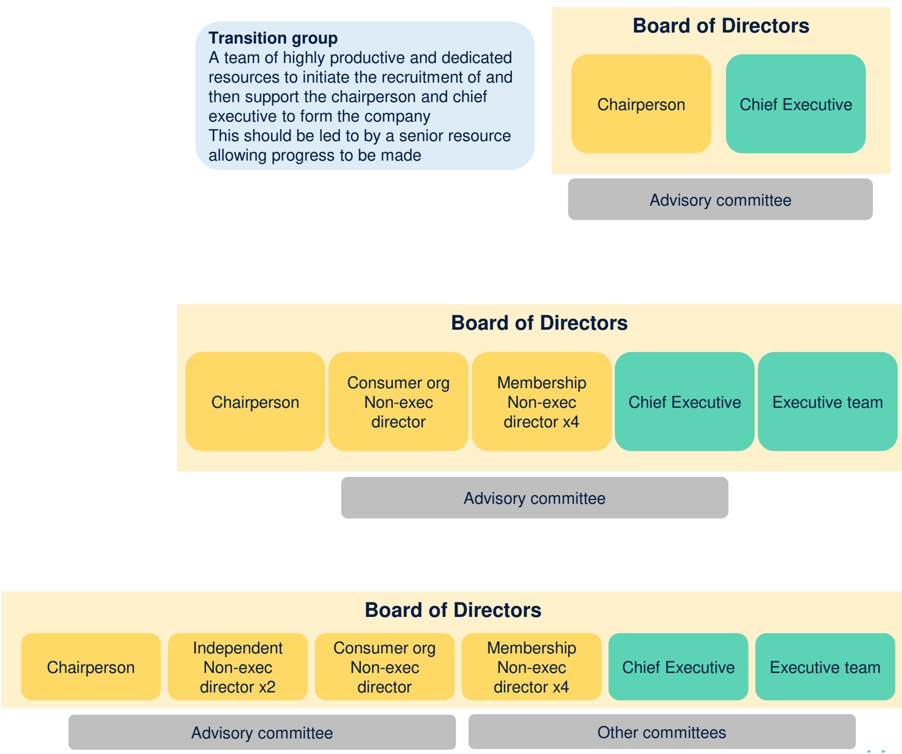
- Carrying out the membership NED selection process and appointing the positions to the board
- Identifying and appointing a representative from a consumer organisation and appoint to the board
- Appointing the executive team to support the chief executive – these roles are unlikely to have voting rights

From day 1 the board should begin the process of appointing the broader independent NEDs. This may be in place for day 1, but the board should ensure the correct individuals are found, rather than move in haste for day 1. The chairperson and board will be able to establish the broader committee structure post day 1.

Steady state

The steady state governance should include a diverse board bringing together industry, consumer and independent representation. The chair will require reappointment after three years as it may be appropriate to have a new chair for the steady state vs transition and day 1. This model should continue to be assessed through the transition and day 1 to ensure its appropriateness. It should also be noted that the proposal is based on the current requirement to support open banking. Should the entity be extended, potentially into other industries the governance will need to reflect this.

Figure 10. Evolution of governance model of Future Entity



8. Commercial model

There is recognition that the transition from OBIE to the Future Entity will require a shift from a cost-recovery model to one that prioritises commercial efficiency, fairness and transparency – the future model must strike the balance of becoming more commercially astute while achieving value for money for member ASPSPs and TPPs. In the absence of data regarding the current commercial model, this blueprint does not speculate on a potential financial position or forward forecast for the Future Entity. Instead, it focuses on communicating the current commercial model and transition (2021 position), the future commercial model (look ahead to 2022) as well as priorities moving forward (2023 and beyond).

8.1 Current commercial model

Current model

The CMA9 are obligated to fund OBIE under the CMA Order – this has meant the CMA9 providing up to £45m a year, in addition to their own internal implementation costs to deliver the CMA Roadmap. Since 2018, OBIE has generated fee income from non-CMA9 ASPSPs for use of services e.g. Directory – TPPs are not charged in the current model. Once the CMA Roadmap has been implemented the regulatory obligation for CMA9 funding changes to maintaining the residual functions under the CMA Order (as set out in section 4.1) – at this point a new commercial model will be required to ensure the maintenance of services required by the ecosystem.

OBIE funding in 2021

In 2021 the CMA9 are asked to fund £26m toward OBIE. Fee Income from non-CMA9 ASPSPs for use of the Directory was £5m, while total costs for OBIE in 2021 were £31m. Figure 11 shows this breakdown in more detail

Transitioning in 2021

The transition to the Future Entity is expected to formally commence in Q2 2021, and complete in 2022. The transition process will bring with it costs in excess of OBIE 2021 funding, including the parallel running of OBIE Trustee and Future Entity chair as well as advisory costs associated with transition. The transition creates opportunities for cost reduction driven by the board, and it is recommended that a strategic review of costs and fee income is undertaken during this period.The board of the Future Entity will need to satisfy major funders that the operational costs are consistent with their legal obligations and ongoing service requirements – there would be an expectation based on the funding model principles as shown above therefore that the Annual Funding Requirement will be capped following the financial reviews and the Future Entity will become more cost-efficient over time.

Figure 11. Summary of current commercial model

Participant Type	Revenue	Annual Contribution	Total
CMA9 ASPSPs	-	£26m *(84%)*	**£26m** *(84%)*
Non-CMA9 ASPSPs	£5m *(16%)*	-	**£5m** *(16%)*
TPPs	-	-	-
Total	**£5m** *(16%)*	**£26m** *(84%)*	**£31m** *(100%)*

Note that estimates for annual Service Fee Revenue and Total Costs are indicatively accurate and have been discussed in conversation with OBIE

8.2 Future commercial model

Principles

We propose a set of principles that shape the future model across three key areas – Annual Funding Requirement, Financial Transparency and Fee Income. Please note, except where otherwise stated the comments in this section are based on Open Banking services as compared to wider requirements that may come about as a part of Open Finance or CoP type initiatives which are covered in section 8.3.

Acknowledging the Annual Funding Requirement in 2022

There is clear potential for costs to fall in 2022 as a result of the strategic cost review and the wind-down of resources associated with completion of the Final Roadmap items – in addition there may be scope for fee income to rise as additional ASPSPs consume services, and potentially TPPs consume paid for add on services from the Future Entity. Despite this and the continued efforts of the board, a significant funding requirement is expected to persist in 2022.

#	Category	Principle
1	Service Fee Income	The Future Entity should continue to generate Fee Income by charging ASPSPs a fair market rate for the Directory, DMS and Service Helpdesk.
2	Service Fee Income	The CMA9 should be considered ASPSPs in the future commercial model, and therefore will be charged Service Fees as other ASPSPs are today.
3	Service Fee Income	Charges for TPPs will be proposed in relation to the services they receive which are over and above what they are entitled to by law.
4	Annual Funding Requirement	Where Fee Income does not cover the Future Entity’s operational costs, Member ASPSPs should provide the residual funding proportionally – TPPs should not be asked to contribute any residual funding
5	Financial Transparency	Future Entity financials should be transparent and upfront, with a business plan communicated to members in advance of each Financial Year
6	Additional income	The board is encouraged to identify opportunities for additional income from open banking services

Key changes

The initial proposal for 2022 reflects an Annual Funding Requirement divided proportionally amongst member ASPSPs according to a metric defined by the board during transition, a detailed business plan published to members ahead of 2022 and a focus on refining the value proposition for services.

1) Enhancing the value proposition for services

During the transition phase, and the detailed review of service capabilities, the board should focus on enhancing the value proposition to the ecosystem associated with the services the Future Entity provides to market. In particular, the Dispute Management System and Service Helpdesk should be prioritised as they contribute significantly less to Service Fee Income than the Directory (c. 10 per cent according to indicative figures from OBIE). In addition, the board should explore the merits of phasing in a charge for TPPs in 2022, reflecting the value-add services they receive from the Future Entity, including the Service Helpdesk, but also potentially areas such as Conformance Tools. As part of the initial business plan for FY22, the board should determine whether it is appropriate to phase this charge in during 2022, or subsequent years. It is imperative that such a fee does not serve as an obstacle to TPP participation in the ecosystem, and instead reflects a value for money, voluntary exchange between TPPs and the Future Entity.

2) Annual Funding Requirement

The Annual Funding Requirement should initially be divided proportionally amongst member ASPSPs, but deciding on an appropriate metric is a complex challenge. During this phase of work, we have explored the merits of using Personal Current Accounts Market Share, Payment Account Market share or Share of Directory Calls to proportionally allocate Annual Funding Requirements. Each option presents its own unique challenge and ultimately, an overly simplistic metric will not produce an equitable outcome for all member ASPSPs – for example, Current Account Market Share does not appropriately reflect the role of e-money providers in the ecosystem.

In order to resolve the challenges presented by a simplistic metric, we recommend a more complex solution accounting for multiple variables, to ensure a proportionate, fair and non-discriminatory distribution is achieved. Defining such a metric will require a thorough consultation with members and it is recommended that the board undertakes this task during the transition phase, once an evaluation of financial data has taken place. The board should publish the outcome of its consultation along with the Business Plan in advance of FY22. The methodology should not add complexity or uncertainty that could potentially destabilise the transition to the Future Entity and during the consultation, the board should consider the relevance of data points such as Payment Account Market Share and share of directory calls, as well as other variables. In the absence of appropriate data, the board should ask member ASPSPs to submit information to the Future Entity in support of the Annual Funding Requirement calculation.

While the initial proposal for 2022 is to not include TPPs in the Annual Funding Requirement, future market evolutions may dictate a change to this approach, in the interests of maintaining a fair and equitable commercial model. In summary, the funding model may evolve as the market evolves. For example, as Open Banking Payments grow, large non-financial institutions may choose to become TPP members of the Future Entity, at which point consideration would be given to those entities being asked to contribute to Annual Funding Requirements alongside member ASPSPs.

Case study – New Zealand API Centre

- Developed as a strategic offshoot of Payments New Zealand, API Centre develops maintains and publishes payment-related API Standards for New Zealand
- API Centre offers a similar service as the Future Entity to New Zealand participants including API Standards, Middleware and a Developer Sandbox
- API Centre runs a “pay to play” model where ASPSPs and TPPs alike are charged an annual fee in exchange for use of API Centre services such as the Sandbox, as well as broader value proposition around influencing how API Standards evolve in the future
- ASPSPs are charged an annual fee according to their interchange volume for bulk electronic clearing, while TPPs are charged an annual fee according to their turnover
- API Centre maintains the concept of “Community Contributors” who also pay an annual fee of c. £400 to utilise the Developer Sandbox and keep up to date with Standard development and events held by API Centre

Source: PaymentsNZ.co.nz / APICentre.PaymentsNZ.co.nz

3) Transparency

The Future Entity will publish a detailed business plan to members well in advance of each financial year. The business plan should include detail on strategy, priorities for the year, a view on expected costs and fee income, as well as an indicative view of the potential funding gap. The business plan should also clarify how Annual Funding Requirements will be used, specifically across operational "run" costs to fund the entity and potential "change" costs associated with enhancements to services or standards (note change will largely self-funded by participant groups). As part of the transition phase, the Future Entity would be expected to produce an initial business plan for FY22, to be shared with members in Q4 2021.

Priorities moving forward

The board of the Future Entity should aim to minimise the funding gap in subsequent years and reduce Annual Funding Requirements from member ASPSPs, by continuing to pursue cost efficiencies and exploring opportunities to increase income. Moreover, the board should monitor the effectiveness of the commercial model put forward for 2022 and recalibrate service fees and annual funding appropriately in response to feedback from members and shifting market dynamics.

Opportunities to reduce cost

The board should strive for operational efficiency in provision of services and capabilities to the market, with a focus on value for money driven by market demand. The board will have the ability to discontinue services where they are either no longer required by the community, show limited commercial potential, or are more effectively provided by other market providers.

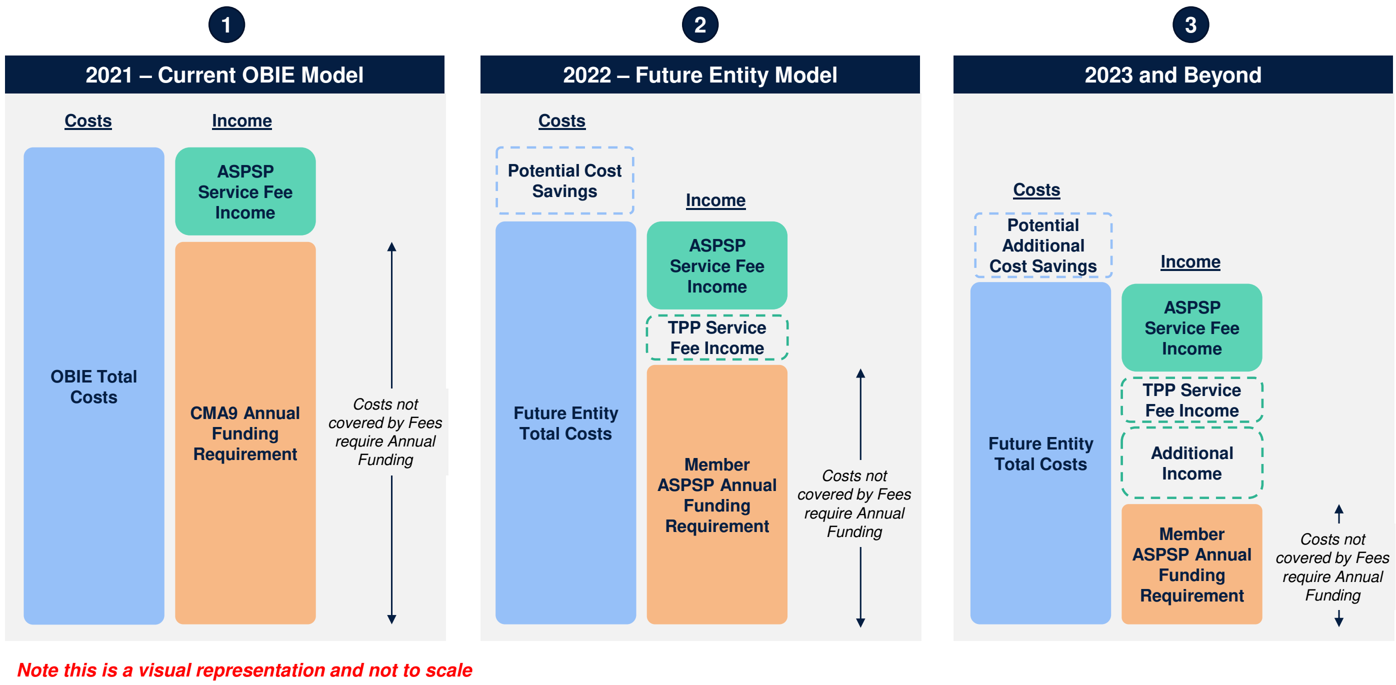
Opportunities to increase income – 'Additional income'

Opportunities to grow revenue should continue to be explored beyond 2022, in an attempt to minimise the annual funding requirement from member ASPSPs. Potential opportunities for increased additional income include but are not limited to:

- Positioning the Directory for use in other Open Data & Payments initiatives, resulting in additional users
- Utilising data and MI to generate insights that can be commercialised (either as part of the membership proposition or more broadly)
- Enhancing the membership proposition by creating a "Pay to Play" model for member ASPSPs and TPPs to influence the evolution of standards, and become aware of latest industry thought leadership , subject to further consideration of the possible competition law and other implications of doing so
- Commercialising the UK Open Banking experience abroad through a Future Entity "Advisory" service

As a result of these changes, we anticipate that based on the current services the directional position on costs and funding would be shaped as follows:

Figure 12: Anticipated directional shape of costs and income for existing Open Banking services
(N.B. work by the future board on the cost/income model would determine further detail)



It should be noted that if the current CMA9 organisations withdrew their membership of the Future Entity before this funding model has fully evolved it may cause a disruption to services and hence the governance section recommends an initial membership term of three years for the current CMA9 bank to the Future Entity. In turn, the board of the Future Entity will need to satisfy major funders that the operational costs are consistent with their legal obligations and ongoing service requirements.

To note; in the course of our industry discussions divergent proposals were put forward on how to manage the risk of withdrawal of membership and included the proposal for an industry Levy. On consideration we believe that the entity should and does have value to the market and as such a position should be reached whereby the entity is self sustaining without forced membership. In our view if a levy were imposed on day 1 it is unlikely this would be removed, whereas having the reassurance of the CMA9 funding for an initial 3 years whilst the funding principles take effect give the opportunity for the entity to be self sustaining. If a levy were subsequently considered this would require legislative powers

8.3 Change budgets

The funds required to bring about new delivery and change fall into three categories:

1. New regulatory mandate – as with any industry regulators can mandate change and as a part of this change they mandate the funding requirement
2. Participant group change – it may be there are participant groups who collectively wish to bring about change. This is an indicator of the ecosystem working well and it is expected a participant group will raise the funding required to deliver the change within the Future Entity.
3. Discretionary change – there may either be a need for small areas of change or to support new requirements that have little commercial potential but will provide end user benefit and for these a budget should be available to enable delivery of the requirements. This budget should not have significance on the funding requirement place on members.

Ultimate approval of expenditure will be a decision for the board, with power to delegate levels of authority and approval to the CEO and the executive teams. However, in the initial three years as highlighted above where there are major funders who are self-mandated to hold their membership they would need to be satisfied that the operational costs are consistent with their legal obligations and that this does not exceed 2021 figures.

By way of example of change:

- Changes occur in TLS standards: where there are small changes, for example TLS is updated from 1.2 to further standards, it is anticipated there would be a need to update the entity standards and potentially conformance testing. It is anticipated that these would be small changes that could be done on a discretionary basis without having significant impacts on the funding requirements placed on members.
- Open Finance or Smart Data: the entity has significant levels of cross sector functionality for example through the accreditation approach or the directory approach and it could well be logical for the entity to be extended to support. This would be a combination of regulatory change and participant group change – regulators may determine funding requirements and a participant group of particular needs could be set up.
- Additional standards are needed for the payments industry – a case would need to be put forward either by a participant group or a regulator. A good example of this industry collaboration has been the Extended Customer Attributes work around identity whereby ASPSPs and TPPs collectively asked the entity to provide additional services and the group providing funding through a separate contract.

A note on CoP for clarity: there is no obligation for the ASPSPs to cover the costs of CoP and this was the understood position when it was set up by OBIE. It is therefore assumed that the fee income set up for CoP covers any additional cost of the provision to these participants.

Other considerations

A strategic cost review should take place during the transition phase to deliver members with an initial business plan for FY22 as well as a plan to resize the Future Entity and reduce costs. A strategic review of OBIE costs and fee income should take place during the transition phase to determine how the Future Entity can resize in a way that maximises value for the ecosystem and remains flexible to new requirements. The initial review should include a detailed analysis of the current cost base including resources and staff, non-resource costs, capabilities and contractual costs associated with third parties. In addition, it should include an analysis of the current fee schedule for commercial services (Directory, Service Helpdesk, DMS) along with historic and projected fee income data. Two things should be communicated to members as a result of this activity – (1) An initial business plan for FY22 outlining the expected costs, fee income and annual funding requirement for the Future Entity and (2) a plan to resize the Future Entity, reduce costs and if applicable generate additional fee income – the plan should be phased appropriately in order to mitigate disruption and uncertainty during the transition, and is expected to run over a number of years.

8.3 Liability

Feedback from the industry is that the current liability model of OBIE would work as the model for the day 1 Future Entity as it stands.

- The Future Entity would hold minimal liability which would allow the entity to retain low costs
- Specifically, the entity, as is the case today would not have liability for the ASPSP and TPP responsibilities that sit on them under PSD2

To test this position work was completed to assess each service capability against a risk taxonomy as shown below to identify potential liability considerations and how these are supported through the current liability model of OBIE.

The review of service capabilities against the risk taxonomy largely supported the industry view on liability, highlighting:

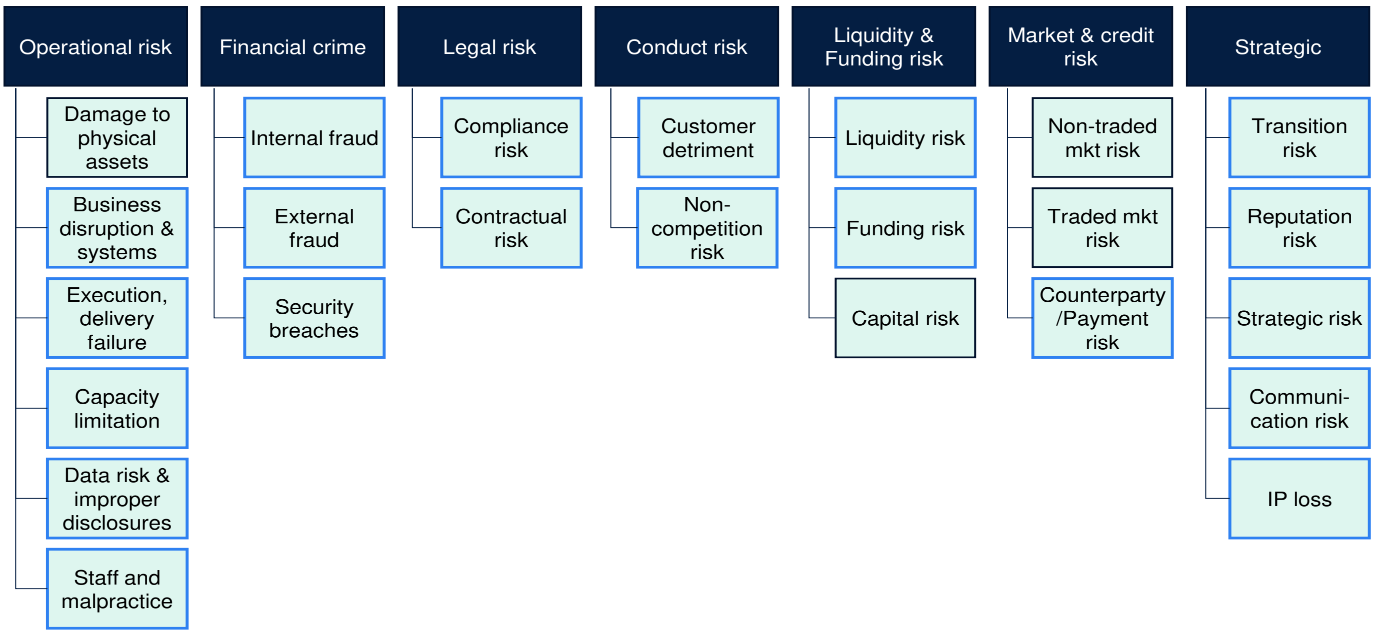
- As is the case today under OBIE, strategic or conduct risks cannot be contracted out and would fall on the Future Entity. The board should therefore provision for these.
- Data liability is currently potentially low given the APIs are held between participants with no access by the entity, however, continued consideration of the information held on the DMS (Dispute Management System) should continue to be considered.

However, there are two exceptions:

1. The current funding model (liquidity and funding risk):

- Upon completion of the CMA Roadmap, the regulatory obligation for CMA9 funding changes to maintaining the residual functions under the CMA Order (as set out in section 4.1)
- In order to mitigate financial risk in the absence of a CMA9 guarantee, the Future Entity must develop a viable commercial proposition while demonstrating a value proposition to members
- To de-risk the transition to the new commercial model and ensure there is no disruption to the services provided to the ecosystem, the governance section recommends an initial membership term of three years for the current CMA9 banks to the Future Entity
- Moreover, where service capabilities are leveraged across multiple participant groups or industry verticals e.g. the Directory used for Open Banking and Open Data, then funding and liquidity risk should be segregated appropriately
- While this approach does not ultimately rule out all financial risk, they set up the Future Entity to be in a position to succeed for the outsourced regulatory elements with the remaining elements subject to market dynamics

Figure 13: Risk taxonomy applicable to the Open Banking Future Entity



2. Future liability areas will need to be considered on a case by case basis, for example the potential risk on the Future Entity of Variable Recurring Payments (VRP), use of service capabilities to support the Smart Data requirements, or the additional governance framework required to support a Payment Arrangement (see day 2 Evolutions for more information).

In conclusion, the core principles of Future Entity Liability model are:

1. The ethos of the current OBIE liability model should remain i.e. the Future Entity should have as low a level of liability imposed on it as possible
2. There should be a separate liability model for each sector requirement or participant group (e.g. CoP, OB, Smart Data)
3. Funding is met on an agreed basis by members, however, there is only the obligation to ensure regulatory requirements are met should there be a position of insolvency with members only liable to £1
4. Future liabilities will emerge as the industry's requirements evolve. The costs of these liabilities will need to be priced into agreements with participant groups to deliver new requirements.
5. Consideration will be needed as to whether larger ASPSPs require step in rights to ensure they can meet their obligations under the CMA Order.

To note:

1. The liability considered was that of the entity; a review has not been done through this work on the protection of end-users and the ecosystem participants such as ASPSPs and TPPs (aside from where this relates to involvement with the entity). There is ongoing work across the ecosystem to consider the trust position of customers.
2. The liability regime in PSD2 sets out the responsibility of ASPSPs and TPPs to end-users and their liability to each other. This is separate to the liability position set out above which relates to the liability of the OBIE and the Future Entity.
3. At this stage formal due diligence has not been completed. Of particular relevance, it is unknown whether there are contingent or contractual liabilities, outstanding debts or assets, disputes or claims in progress and as such a period of due diligence has been added to the transition plan.

9. Transition planning

Success of the entity, with ecosystem buy-in and support is dependent on an effective transition, with minimum disruption to service (as stated in the Vision and Mission).

9.1 The transition plan:

The ecosystem wants a swift and stable transition for all members of the industry. In particular, the following requirements are highlighted:

- End users continue to need the free flow of data in an open transparent environment to help them better manage their finances
- Third-party providers (TPPs) who have businesses centred around secure and efficient access to customer data
- Businesses who supply to the Open Banking ecosystem (for example the multiple identity organisations) who wish to ensure the market is competitive and their provision is seen on an equal footing.
- ASPSPs who need to meet their regulatory requirements and wish to support their customers
- Regulators and other industries are now looking at the significant infrastructure built by the OBIE and how this might be used to support other initiatives

The plan has therefore been built with the requirement of minimising the timeframe whilst ensuring the stable provision of services. It has also rightly been raised that the success of any approach to transfer will need to ensure that the Trustee, senior leadership team of OBIE and any large third-party suppliers work effectively with the governance of the Future Entity who will be responsible for the transition.

On the plan - there are multiple routes available to transition from a legal perspective including:

- Retaining OBL as the legal entity and introducing governance, funding and operational changes within the existing company
- Setting up a new legal entity and transitioning much of the current OBIE to this entity

There will need to be formal due diligence to consider the financial standing of OBIE including outstanding debt and asset positions, any potential legacy liability positions and consideration of the current Articles or Memorandum of Association before a decision on the legal construct of the Future Entity can be confirmed.

However, if this due diligence does not highlight any legacy issues from retaining OBL (Open Banking Limited) as a legal construct we recommend retaining the OBL legal structure, making changes to governance, funding and operationally as compared to setting up a new legal entity. It is on this assumption that the transition plan below has been constructed

Three broad stages of transition:

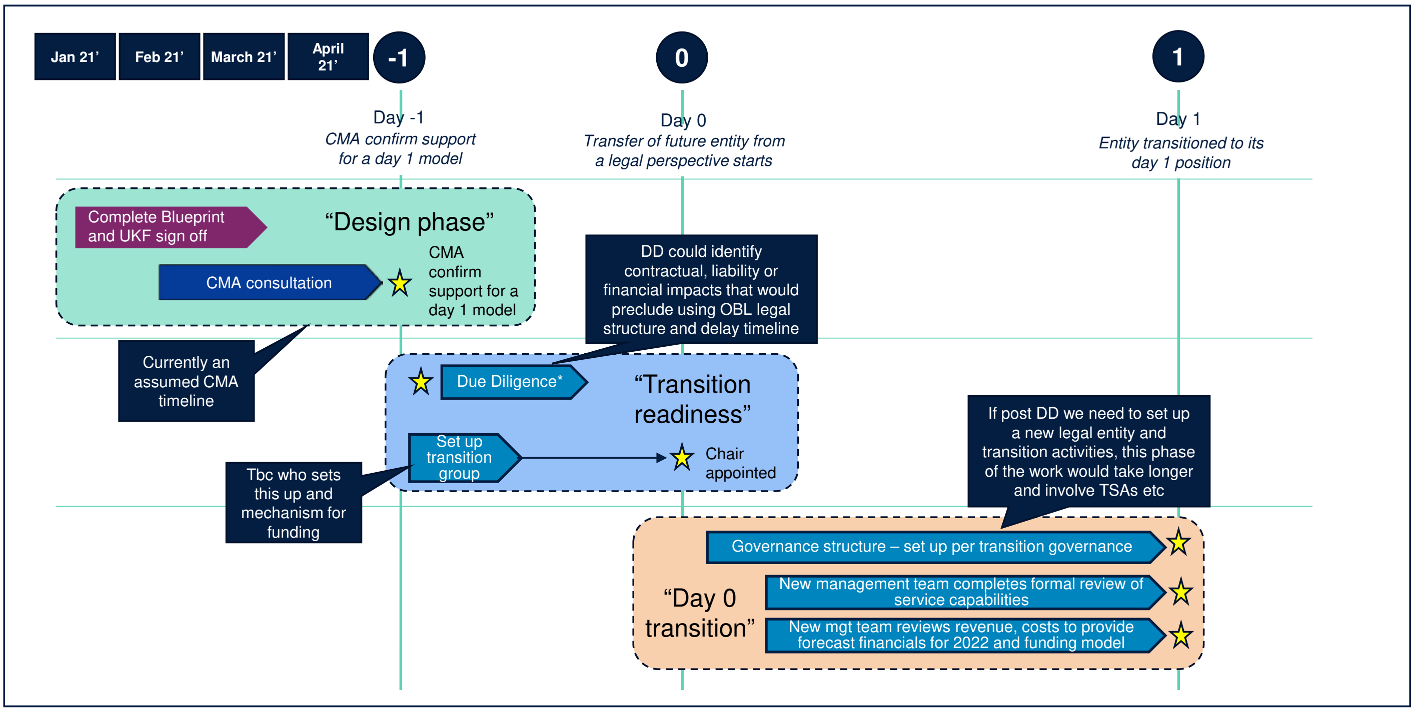
1. Design phase: the blueprint is completed, approved via UK Finance governance and submitted to the CMA who complete consultation and publish their support for a day 1 model
2. The Transition group (details below) is set up. This group ensures the completion of due diligence and secure funding and in turn the process to appoint a chair of the Future Entity
3. The chair and chief executive of the Future Entity supported by the transition group set in motion the revised governance, complete a review of revenues and costs to provide a final funding model and financial forecasts for 2022 and review the service contracts

The associated timeline is dependent on key timeframes:

- The timeline for confirmation by the CMA of the day 1 model
- That the due diligence does not identify any issues of substance that would impact the proposed model or the approach to transition

- That the transition group is set up under correct mandate and with the correct parties to ensure its success
- Agreement that new requirements will be dealt with under the new governance and funding arrangements during the transition

Figure 14. High level transition plan



This high-level timeline is underpinned by a series of key activities as follows:

Activity	What it entails
Due Diligence	Ensures clarity on the transition approach and ongoing fundamentals of the entity. To include: • Constitutional set up and documents of OBIE • Contractual terms including DMS letter of variation, trustee contract/letter to the CMA9 and ASPSP T&Cs • Terms of funder participation and their financing commitments including debts/assets outstanding • Third-party financing relationships and terms • Bank accounts • Premises • Employees, workers, contractors, their terms of engagement, remuneration, benefits and pension provision • Third-party contracts including tenor and annual cost, breakage/notice clauses • Visibility of contingent liabilities • Assets, including intangible assets, software, data, domains and intellectual property generally • IT, including infrastructure assets and support services contracts, cloud hosting terms, etc • Data Protection policies and compliance • Trustee appointment and terms, with focus on process for termination or replacement
Due Diligence Set up transition group	Transition group that is representative of the market to be set up with governance that is transparent and in turn for them to agree the funding and bring on board a delivery team to include representatives from OBIE and third-party professionals (e.g. lawyers) via appropriate RFPs/ governance
Chair appointment	Confirm the function and powers of the chair with the CMA, appoint panel including representatives of ASPSP and TPP communities, identify candidates (potentially with headhunter support). Complete interviews and confirm candidate with CMA, members of the transition group and notify the market
Governance structure	Lower level design of governance structure (to include advisory committee, members, board and participant groups) and mechanism to drive governance structure. Amend Memo and Articles of Association where applicable. Appoint members and complete contractual set up
Service capability review	Review of each service capability to confirm whether the current provision is what is needed going forward and whether a single or multiple providers serve the best interests of the industry. This could be aligned to a review of contracts to determine possible cost saving opportunities
Revised funding mechanism	Deep dive review of cost/revenue and build of 2022 funding model to align with blueprint models. Run funding consultation process with relevant industry members. Confirm approach to apportionment of member ASPSP funding. Confirm anticipated level of ASPSP service fee income and potential options for TPP service income. Anticipate 2022 funding need. Present final funding model with 2022 fee, revenue and spend figures
Migration of the monitoring function	Perimeter definition to identify the people, data, systems etc for monitoring that need to be transferred from OBL potentially to a separate entity or alternatively rehoused as deemed appropriate by the CMA. Writing of a TSA (Transition Service Agreement) where required and a plan and implementation of associated carve out

It is anticipated that these key activities will be accompanied by a formal variation to the CMA Order to ensure clarity around the residual requirements and closure to elements of the CMA order such as the Schedule 1 agreements (Reference: the Retail Market investigation order 2017 Schedule 1, Part A- agreed arrangements, Part B – Agreed Timetable and Project Plan, Part C – Implementation Trustee). It is also assumed that the CMA roadmap is now in final form and there will be no ability for enhancements to be made to the standards within OBL's existing governance model before the intended September 2021 target for transition to the newly structured Future Entity.

9.2 Implementing the transition

Integral to the transition is to have a group of dedicated individuals with deep knowledge of the market who involve the right parties and as far as is possible and increasingly involve OBIE in the transition process:

- Initially a transition group should be established. These resources will be highly productive and dedicated to drive forward the formation of the Future Entity, and led by a senior individual allowing progress to be made
- The Chair should be hired as early within the transition as possible to take decisions and begin the formation of governance. Once onboard the chairperson will be able to support with the hiring of the chief executive
- The Advisory Committee should be established ASAP to support will all transition steps and de-risk the process
- It is important the experience and knowledge of the OBIE resources is not lost, and should play a key role in the transition

In terms of the constituent parts of the transition group we recommend:

- A transition chair who will hand their responsibilities to the Future Entity Chair once appointed. The chair should be independent of either ASPSP, OBIE or TPP groups
- An advisory group including representation for ASPSPs, OBIE, TPPs and end users
- A core transition team to include the transition lead, programme manager, legal secondee, CMA9 rep and OBIE rep to complete the key workstreams such as the service capability review, funding model and governance set up
- Including members of OBIE in the core team where possible
- Advisory support where necessary for example: legal counsel, senior appointment recruitment, auditors

The transition group will need to flex and change to support the particular needs of each part of the programme and to take account of the individuals that may be available during each phase.

9.3 Transition risks

A series of risks have been identified during the period of transition and as a result of transition. These include:

1. System Risk: Tableau (the system used to review the history of entity participant) is used by the monitoring team, the standards development team and the marketing and ecosystem team. There are elements that can only be accessed by the monitoring team and the entity is reliant on some of the MI, for example the usage stats. Our recommendation is that the Future Entity should continue to collect MI and share with the monitoring function under contract with appropriate confidentiality provision
2. Legal Risk: The Memorandum and Articles of Association for OBL have not been reviewed and the special status of the Trustee and implementation director will need to be considered through legal counsel. Similarly, the transition group is not yet set up and this may cause delay to the transition timeframes. Formal due diligence is a key step in the transition plan. The ongoing plans will also need to be considered to ensure compliance with competition law.
3. Brand Risk: If OBL remains however the OBIE brand disappears, what brand is this replaced by and how do we ensure the value of the brand is maximised? We believe the naming and brand of the Future Entity should be established by the new board and consider the impacts of these on adoption of APIs in the UK.
4. Contractual and Contingent liability Risk: Some of the risks to highlight if OBL is retained are: The Pay.uk contract to provide the loan of 2 Thomas More as a premises for OBL runs out in 2021, OBL is contractually obliged to provide CoP for seven

years. The contractual terms of third-party suppliers to OBL are largely unknown. It may be that if OBL is retained, suppliers cannot be changed. N.B the CTI contract for the Directory includes a certain minimum cost based on a certain volume of usage (Review of Salesforce, Accenture, Entrust, CGI, Pay.uk, Forgerock and Ozone contracts required). These should be reviewed in the due diligence.

Risks as a result of transfer

1. It is understood that the majority of staff are now contracted on a permanent basis with c. only 30 per cent remaining as contractors. Staff contracts to be reviewed.

2. ASPSP Risk: ASPSPs are not required to use the Future Entity however it is largely a fixed cost model. If ASPSPs removed their support in the early years, the entity would not survive financially. The former CMA9 organisations are to maintain support for a period of three years.

3. Operational Risk: If there is a significant change in supplier relationships as a result of the service capability review this may increase the risk of non-provision of services in the business. Our recommendation is to phase the service capability review, focusing initially on the Directory considerations.

10. Day 2 evolutions to the model

This report describes the day 1 position for the Future Entity. In our discussions with ecosystem players during the analysis for this report a number of potential directions have emerged that the company could evolve to in the future, which we refer to as 'day 2'. These evolutions include the creation of a commercial subsidiary, a separate Open Futures board or the formalisation of governance around Open Banking Payments. Please see more information below.

10.1 Commercial subsidiary

The Day 1 model proposes two entities – a monitoring function established by the CMA to oversee the requirements of the CMA order, and a ServCo "Future Entity" that governs the standards and services required for Open Banking and future Open Data and Payment propositions. The Future Entity will provide standards and services required to meet industry requirements and enable the defined industry and end user outcomes. It was agreed that this model was most appropriate for day 1 to minimise the complexity of the transition.

A potential evolution from Day 1 is to create a wholly-owned commercial subsidiary that sits under the Future Entity. The Parent Entity would hold the API standards and be responsible for co-ordinating and engaging the ecosystem. The commercial subsidiary would house the commercialised services e.g. Directory, DMS and Service Helpdesk. The Parent Entity would remain not-for-profit and, while the commercial subsidiary could make profit, this would be paid as a dividend through to the Parent Entity. This provides clear division between the services on offer that will likely compete with other Open Banking service providers and services centralised across the industry. This model would also enable the parent and subsidiary model to be built on further should there be other Open Data propositions that the Future Entity incorporated. It was agreed that the board should consider this model in the future as an option to gain greater separation between commercial and non-commercial activities.

Figure 15. Summary of proposed day 1 structure

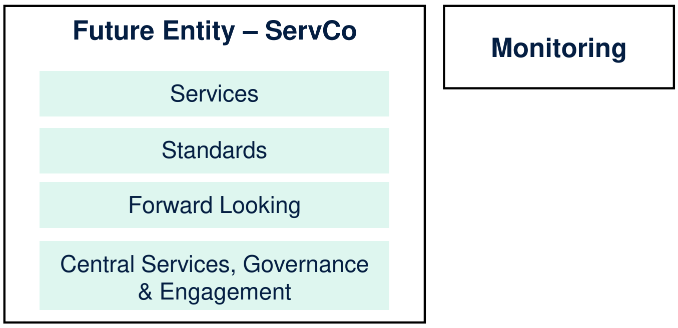
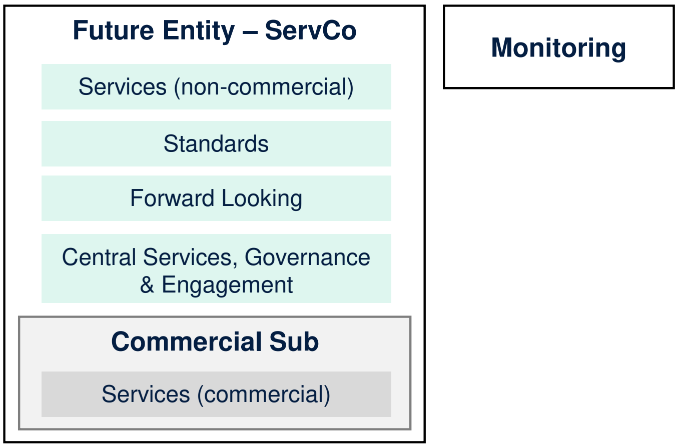


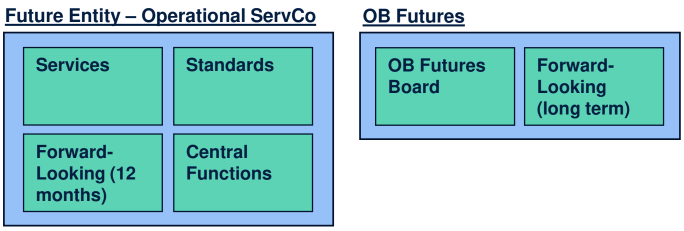
Figure 16. Summary of possible day 2 structure



10.2 Futures Board

As Open Finance and Open Data initiatives gain momentum, it may be beneficial to create an Open Futures board. This allows for the efficient and effective running of the infrastructure separately from the cross industry, more macro, longer-term discussions. The Open Futures board would prioritise the alignment of Open Data roadmaps, focusing on end-user outcomes. The futures board would help ensure there is clarity of purpose across the range of discussions for example the more bluesky considerations around API developments in the UK that may not come through the participant groups and as such simplicity in the market. Finally, a separate OB futures board would bring market independence with decisions on who provides services across multiple suppliers with no conflict of interest.

Figure 17. Summary of potential Future Entity structure



10.3 Open Banking Payments

The day one approach will be to identify Open Banking Payments as a participant group in the Future Entity change process – this will be a distinct group of market participants collaborating to improve Payment Initiation functionality, use cases and adoption. The participant group will provide an initial framework for participants to drive forward the enhancements and use cases they want to see via the Future Entity. Additionally, there will be a dedicated role on the Future Entity board for a TPP Payment Initiation representative to be elected by members – this will ensure the interests of Open Banking Payments are represented at board level, including Future Entity strategy and budgeting.

As the Open Banking Payments market matures through the development of various use cases and increased adoption, a more formal governance arrangement may be required to support it in addition to the board role and participant group. The ECB's PISA framework describes a Payment Arrangement as a governance arrangement that may be suited to Open Banking Payments in the future. A Payment Arrangement provides functionalities that support end users of multiple payment service providers in the use of electronic payment instruments, and is managed by a governance body which issues the relevant rules or terms and conditions. Member ASPSPs and TPPs may decide that the best way for the Future Entity to support Open Banking Payments in the future is to define a Payment Arrangement to provide a more rigorous legal and governance framework – including sound risk management practices.

Open Banking Payments are sometimes described as a "scheme" and it is important to clarify that this is not (and will not be) the case, since Open Banking Payments use FPS rails to transfer value. Creating a scheme requires significant legal, capital and operational requirements, and there is no indication of a desire for the Future Entity to explore this direction in the future